

**CITY OF NEWTON, MASSACHUSETTS**  
**REPORTS ON FEDERAL AWARD PROGRAMS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



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Certified Public Accountants

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

To the Honorable Board of Aldermen and Mayor  
City of Newton, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newton, Massachusetts, as of and for the fiscal year ended June 30, 2007 (except for the Newton Contributory Retirement System and the Newton Commonwealth Foundation, Inc., which are as of and for the fiscal year ended December 31, 2006, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2006), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newton, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Newton, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Newton, Massachusetts' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Newton, Massachusetts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Newton, Massachusetts' financial statements that is more than inconsequential will not be prevented or detected by the City of Newton, Massachusetts' internal control. We consider the deficiencies described in item 07-1 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Newton, Massachusetts' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies as described in item 07-1 in the accompanying schedule of findings and questioned costs to be material weaknesses.

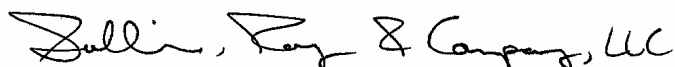
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Newton, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Newton, Massachusetts, in a separate letter dated October 25, 2007.

The City of Newton, Massachusetts' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Newton, Massachusetts' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Audit Committee, Board of Aldermen, Mayor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sullivan, Ray & Company, LLC". The signature is written in a cursive, flowing style.

October 25, 2007



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**Independent Auditors' Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Honorable Board of Aldermen and Mayor  
City of Newton, Massachusetts

Compliance

We have audited the compliance of the City of Newton, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. The City of Newton, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Newton, Massachusetts' management. Our responsibility is to express an opinion on the City of Newton, Massachusetts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newton, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Newton, Massachusetts' compliance with those requirements.

In our opinion, the City of Newton, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3.

Internal Control Over Compliance

The management of the City of Newton, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Newton, Massachusetts' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Newton, Massachusetts' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

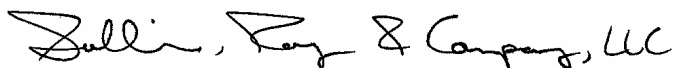
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newton, Massachusetts, as of and for the fiscal year ended June 30, 2007 (except for the Newton Contributory Retirement System and the Newton Commonwealth Foundation, Inc., which are as of and for the fiscal year ended December 31, 2006, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2006), and have issued our report thereon dated October 25, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Newton, Massachusetts' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City of Newton, Massachusetts' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Newton, Massachusetts' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Audit Committee, Board of Aldermen, Mayor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 25, 2007

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Federal Grantor/ <u>Pass-Through Grantor/ Program</u></b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Agriculture</b>		
<u>Passed through the State Department of Education:</u>		
Food Distribution Program	10.550	\$ 79,678
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	42,953
National School Lunch Program	10.555	394,925
Total U.S. Department of Agriculture		517,556
<b>U.S. Department of Housing and Urban Development</b>		
<u>Direct Programs:</u>		
Community Development Block Grant	14.218	2,599,795
Emergency Shelter Grants Program	14.231	109,999
Supportive Housing Program	14.235	3,956
HOME Investment Partnerships Program	14.239	1,241,259
Fair Housing Initiatives Program	14.408	17,244
Total U.S. Department of Housing and Urban Development		3,972,253
<b>U.S. Department of the Interior</b>		
<u>Passed through the Massachusetts Division of Marine Fisheries:</u>		
Outdoor Recreation, Acquisition, Development and Planning	15.916	19,261
<b>U.S. Department of Justice</b>		
<u>Passed through the State Executive Office of Public Safety:</u>		
Bulletproof Vest Partnership Grant	16.607	24,940
COPS Homeland Security Overtime Grant	16.614	25,098
DEA Asset Forfeitures	16.unk	5,067
Total U.S. Department of Justice		55,105
<b>Institute of Museum and Library Services</b>		
<u>Direct Program:</u>		
Museum for America Grant	45.301	32,307
<u>Passed through the State Library Board of Commissioners:</u>		
Library Services and Technology Grant	45.310	5,184
Total Institute of Museum and Library Services		37,491



# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Federal Grantor/ Pass-Through Grantor/ Program</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Energy</b>		
<u>Passed through the State Department of Energy:</u>		
Solar Energy Demonstration Grant	81.117	970
<b>U.S. Department of Education</b>		
<u>Direct Programs:</u>		
Emergency Response Crisis Management Grant	84.184E	103,286
School Counseling Demonstration Grant	84.215E	2,628
Physical Education Grant	84.215F	228,179
Small Learning Communities Program	84.215L	194,169
Interface Program	84.215M	187,793
Teaching American History Grant	84.215X	288,273
<u>Passed through the State Department of Education:</u>		
Title One Distribution	84.010	458,270
<i>Special Education Cluster:</i>		
SPED 94-142 Allocation	84.027	2,589,510
SPED Program Improvement	84.027	6,000
Secondary Reading Grant	84.027	69,777
SPED Mental Health Support	84.027	3,819
SPED Electronic Portfolio	84.027	910
SPED Autistic Programs	84.027	44,104
SPED Induction	84.027	68,570
SPED Early Childhood Training	84.173	65,429
Carl Perkins Occupational Education	84.048	56,772
Safe and Drug-Free Schools	84.186	34,902
Innovative Education Program	84.298	3,418
Technical Literacy Grant	84.318	15,466
Title III - No Child Left Behind Grant	84.365	113,296
Improving Teacher Quality	84.367	252,743
Hurricane Education Recovery	84.938	10,000
Total U.S. Department of Education		4,797,314
<b>U.S. Department of Health and Human Services</b>		
<u>Passed through the State Executive Office of Health and Human Services:</u>		
School-Based Medicaid Reimbursement Program	93.778	379,857
<u>Passed through the State Department Office of Elderly Affairs:</u>		
Title IIIC - Nutrition Services	93.045	774
Total U.S. Department of Health and Human Services		380,631

(continued)

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Federal Grantor/ <u>Pass-Through Grantor/ Program</u></b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>Centers for Disease Control and Prevention</b>		
<u>Passed through the State Executive Office of Health and Human Services:</u>		
Public Health Emergency Preparedness Grant	93.996	<u>7,736</u>
<b>Corporation for National and Community Service</b>		
<u>Passed through the State Department of Education:</u>		
Learn and Serve Grant	94.004	<u>6,854</u>
<b>U.S. Department of Homeland Security</b>		
<u>Passed through the State Executive Office of Public Safety:</u>		
State Homeland Security Program (MAPC Pass-Through)	97.073	36,290
<u>Passed through the State Office of Emergency Management:</u>		
Public Assistance Grants	97.036	35,847
Emergency Management Assistance Grant	97.042	<u>2,200</u>
Total U.S. Department of Homeland Security		<u>74,337</u>
Total		\$ <u><u>9,869,508</u></u>
		(concluded)

See notes to schedule of expenditures of federal awards.

**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newton, Massachusetts and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 2 – U.S. Department of Agriculture Programs**

The amount reported for the Food Distribution Program represents non-monetary assistance and is reported in the schedule at the fair market value of the commodities received. The amounts reported for the School Breakfast Program and National School Lunch Program represent cash receipts from federal reimbursements.

**Note 3 – U.S. Department of Health and Human Services**

The amount reported for the School-Based Medicaid Reimbursement Program represents federal cash receipts.

**Note 4 – Subrecipients**

The City of Newton, Massachusetts provided the following awards to subrecipients for the fiscal year ended June 30, 2007:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 945,991
Emergency Shelter Grants Program	14.231	109,999
Fair Housing Initiatives Program	14.408	750
		<u>\$ 1,056,740</u>

**A. Summary of Auditors' Results**

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Newton, Massachusetts.
2. Significant deficiencies considered to be material weaknesses disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the City of Newton, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City of Newton, Massachusetts expresses an unqualified opinion on all major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule on pages 10 – 11.
7. The programs tested as major programs were:

Program Description	CFDA Number
<i>Child Nutrition Cluster:</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Community Development Block Grant	14.218
Emergency Shelter Grants Program	14.231
HOME Investment Partnerships Program	14.239
Emergency Response Crisis Management Grant	84.184E
School Counseling Demonstration Grant	84.215E
Physical Education Grant	84.215F
Small Learning Communities Program	84.215L
Interface Program	84.215M
Teaching American History Grant	84.215X
School-Based Medicaid Reimbursement Program	93.778

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Newton, Massachusetts qualified as a low-risk auditee.

**B. Findings – Financial Statement Audit***Significant Deficiencies Considered to be Material Weaknesses*

## 07-1 Financial Reporting System

*Conditions:* Although procedures (internal controls) are in place to perform timely reconciliations of the Treasurer's cash book to the general ledger; procedures are not in place to reconcile individual bank account balances to the Treasurer's cash book timely. In addition, procedures are not in place to reconcile the Collector's accounts receivable balances to the general ledger timely.

*Criteria:* Effective internal controls require the timely reconciliation of individual bank account balances to the Treasurer's cash book and the timely reconciliation of detailed accounts receivable balances to the general ledger. Failure to perform these tasks timely inhibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

*Effect:* Misstatements due to error or fraud may occur and not be detected timely. During fiscal year 2007, two instances occurred whereby the amount transmitted to the federal government for employee withholdings was significantly less than the required amount. These errors were identified several months after the clerical mistakes were made. As a result, the City has paid the federal government penalties totaling approximately \$44,000 and has been assessed an additional penalty totaling approximately \$56,000, which the City is disputing.

*Auditors' Recommendation:* We recommend that procedures be implemented to reconcile individual bank account balances to the Treasurer's cash book and reconcile the Collector's accounts receivable balances to the general ledger no later than 30 days after end of the previous month.

*Grantee Response:* We agree, and the Treasurer and Comptroller's office have implemented for the last few months a cash reconciliation process of reconciling the Treasurer's cashbook to the individual bank statements within 30 days. We now deliver a report monthly to the Audit Committee in a format developed by the Audit Committee.

We are working with the Comptroller's office to improve the timing of the accounts receivable reconciliation process through increased computer technology and improved Munis integration of the detailed Munis accounts receivable balances to the Munis general ledger system, which will be reconciled to the Comptrollers Pentamation general ledger accounts. This process will speed up the accounts receivable reconciliation process.

**C. Findings and Questioned Costs – Major Federal Award Programs Audit****DEPARTMENT OF EDUCATION***Finding*

- 07-2 Small Learning Communities Program – CFDA No. 84.215L; Fiscal year ended June 30, 2007  
 Interface Program – CFDA No. 84.215M; Fiscal year ended June 30, 2007  
 Teaching American History Grant – CFDA No. 84.215X; Fiscal year ended June 30, 2007

*Condition and Criteria:* Some of the contractual service expenditures obligated during fiscal year 2007 related to contracts that were procured in fiscal year 2006. During fiscal year 2006, program management did not use formal advertising to solicit open competition for purchases of contractual services related to

its major programs, as prescribed in MGL Chapter 30, Section B (Uniform Procurement Act). The state procurement standards for municipalities outlined in MGL Chapter 30, Section B (Uniform Procurement Act) are more stringent than the relevant federal standards. Therefore, the Department of Education requires grantees to follow state procurement policies when procuring goods and services related to federal grants.

*Cause:* Procedures are not in place to adhere to the MGL Chapter 30, Section B (Uniform Procurement Act) requirements when procuring all services related to the federal grants.

*Effect:* Program management is not in compliance with federal grant procurement requirements.

*Questioned Costs:* There are no questioned costs related to this finding.

*Auditors' Recommendation:* Procedures must be implemented to ensure that MGL Chapter 30, Section B (Uniform Procurement Act) requirements are adhered to and that formal advertising is used to solicit open competition when procuring all contractual services related to the federal grants. Procedures must also be implemented to ensure that program management is aware of all federal procurement requirements.

*Grantee Response:* A procedure is now in place that requires a bid process or purchase of services from the state contract for procurement of project evaluation services. The new procedure is in compliance with MGL Chapter 30B.

## DEPARTMENT OF AGRICULTURE

### *Finding*

07-3 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2007

*Condition and Criteria:* The claim for reimbursement forms submitted to the Commonwealth of Massachusetts' Department of Education (DOE) were not always supported by proper documentation. We identified several instances where the number of lunches served, as reported to the DOE, did not agree to the detailed breakdown of school lunch activity.

*Cause:* Policies and procedures are not in place to reconcile claims for reimbursement to the supporting detailed records of lunches served prior to submission to the DOE.

*Effect:* As a result of reconciliations not being performed prior to submission of claims for reimbursement, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

*Questioned Costs:* Questioned costs related to this finding total \$1,377.

*Auditors' Recommendation:* Procedures must be implemented to reconcile claims for reimbursement to the supporting detailed records of lunches served, with all exceptions clearly noted, detailed and resolved.

*Grantee Response:* For the secondary program, the new point of sale system (Lunchbox) will flag us if we claim more than the number of free or reduced lunches on file at any of the schools. For the elementary program, the coordinator audit checks all 15 schools to make sure that we do not over claim the number of free and reduced lunches on file. The last check is when we transpose those numbers onto the DOE online claims. The DOE's computer program will flag us if we submit numbers over the amount of free and reduced lunches on file.

**D. Summary of Prior Audit Findings****MAJOR FEDERAL AWARD PROGRAMS AUDIT****Department of Housing and Urban Development**

- 06-1 Community Development Block Grant – CFDA No. 14.218; Fiscal year ended June 30, 2006

*Condition:* Program management did not maintain all of the required documentation related to the support of salaries and wages related to its major programs as prescribed in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

*Current Status:* During fiscal year 2007, procedures were implemented to alleviate this finding.

**Department of Education**

- 06-2 Small Learning Communities Program – CFDA No. 84.215L; Fiscal year ended June 30, 2006  
Interface Program – CFDA No. 84.215M; Fiscal year ended June 30, 2006  
Teaching American History Grant – CFDA No. 84.215X; Fiscal year ended June 30, 2006

*Condition:* Program management did not use formal advertising to solicit open competition for purchases of contractual services related to its major programs, as prescribed in MGL Chapter 30, Section B (Uniform Procurement Act).

*Current Status:* During fiscal year 2007, procedures were implemented to adhere to MGL Chapter 30, Section B requirements when procuring contractual services related to the federal grants. However, some of the contractual service expenditures obligated in fiscal year 2007 related to contracts that the City procured in fiscal year 2006, prior to implementing the new procurement procedures. Please see current year finding 07-2.

**Department of Agriculture**

- 06-3 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2006

*Condition:* The claim for reimbursement forms submitted to the Commonwealth of Massachusetts' Department of Education (DOE) were not always supported by proper documentation.

*Current Status:* The status has remained unchanged. Please see current year finding 07-3.

- 06-4 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2006

*Condition:* Program management did not file the fiscal year 2006 Verification Summary by the deadline date of January 6, 2006.

*Current Status:* Program management filed the fiscal year 2007 Verification Summary by the deadline date of January 6, 2007.